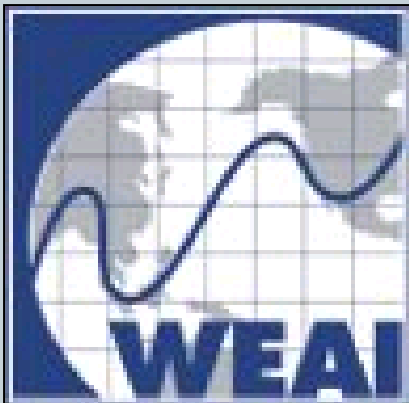


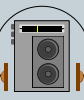
# Shades of Gray



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***Portland  
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# Field Poll Favorable Approval Ratings



**Low 22% Aug. 2003**

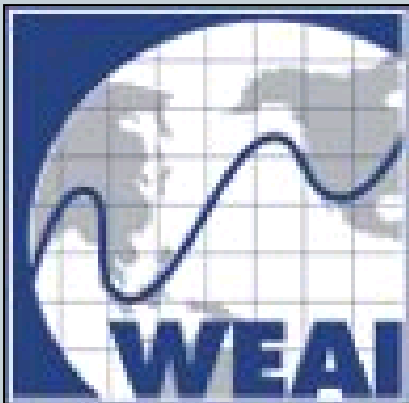
**High 62% Feb. 2000**

**Low 23% Mar. 2010**

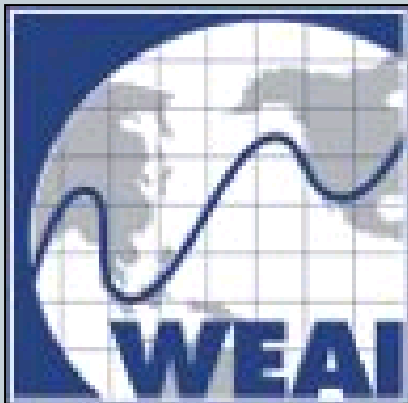
**High 65% Aug. 2004**

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# Shades of Gray





# Shades of Gray



Then



# Shades of Gray



Then







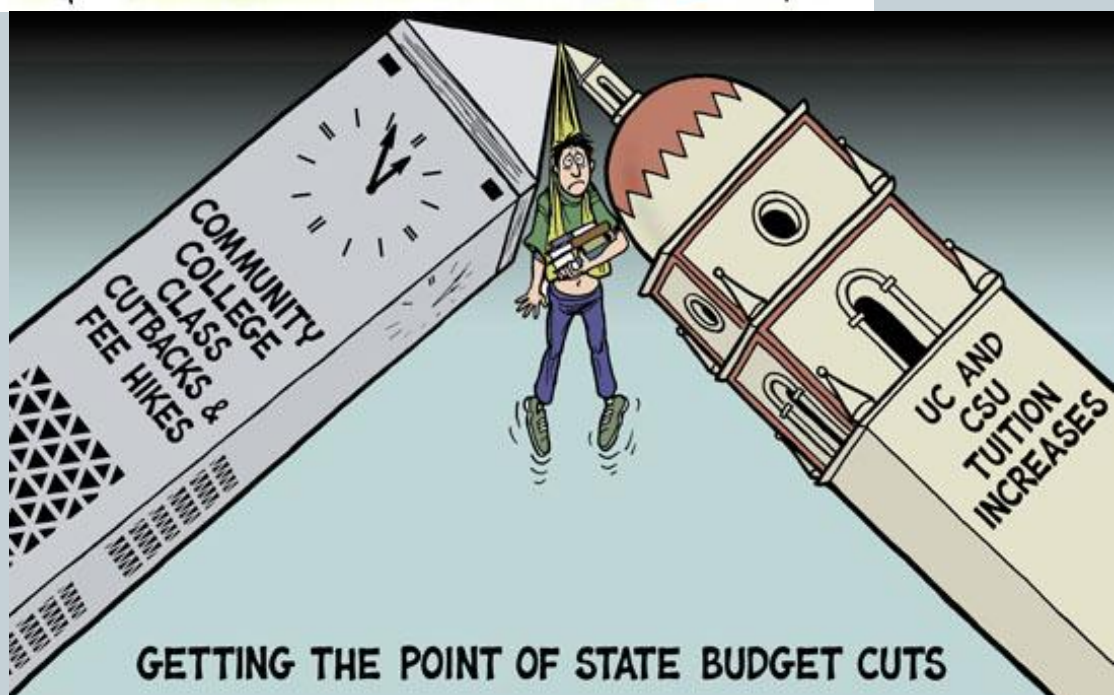
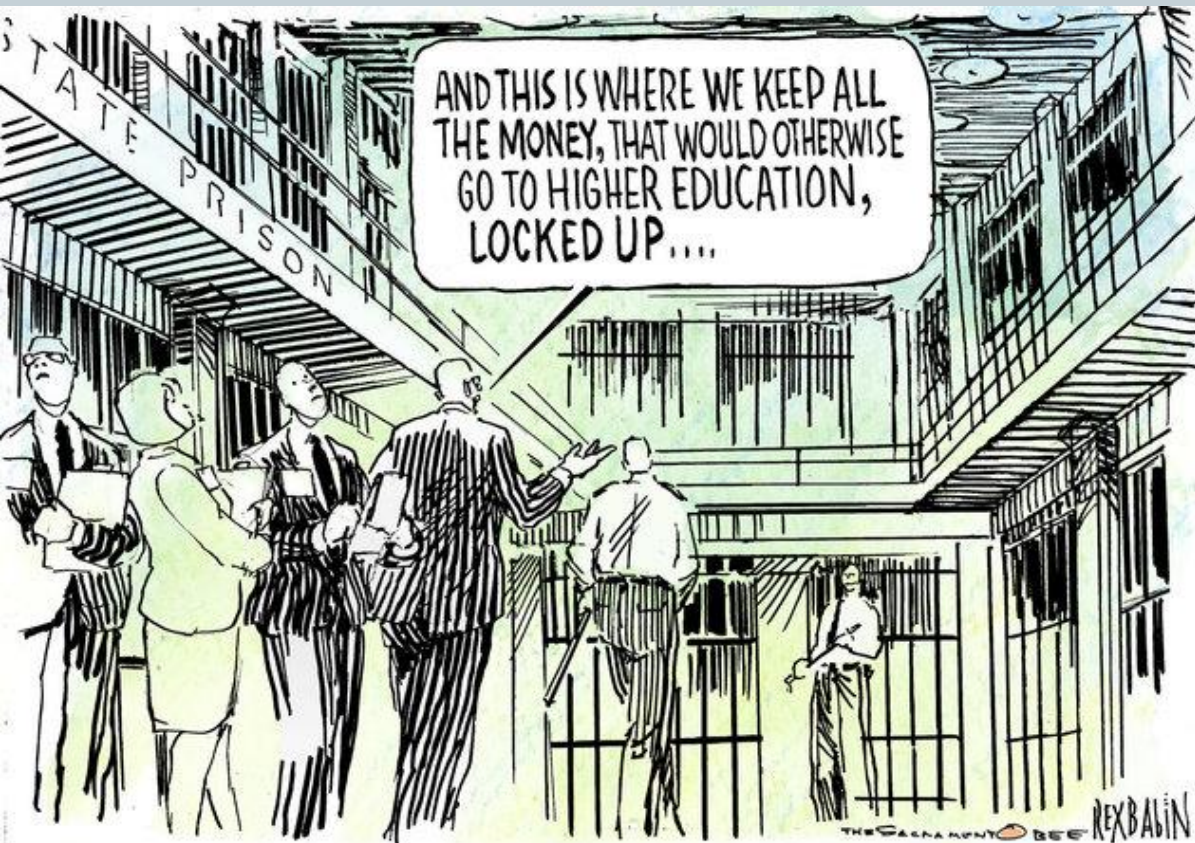
NOW







# Shades of Gray







# Ongoing Budget Crisis Leads to Feb. 2009 Budget Deal

## CALIFORNIA STATEWIDE SPECIAL ELECTION

Tuesday, May 19, 2009 ★ Offi

VIG Home

Secretary of State

### Voter Information Guide (VIG)

- Proposition 1A
- Proposition 1B
- Proposition 1C
- Proposition 1D
- Proposition 1E
- Proposition 1F

- Quick-Reference Guide
- State Budget Overview
- Voter Bill of Rights



<http://www.voterguide.sos.ca.gov/quick-reference-guide/index.htm>





# Ongoing Budget Crisis Leads to Feb. 2009 Budget Deal

## CALIFORNIA STATEWIDE SPECIAL ELECTION

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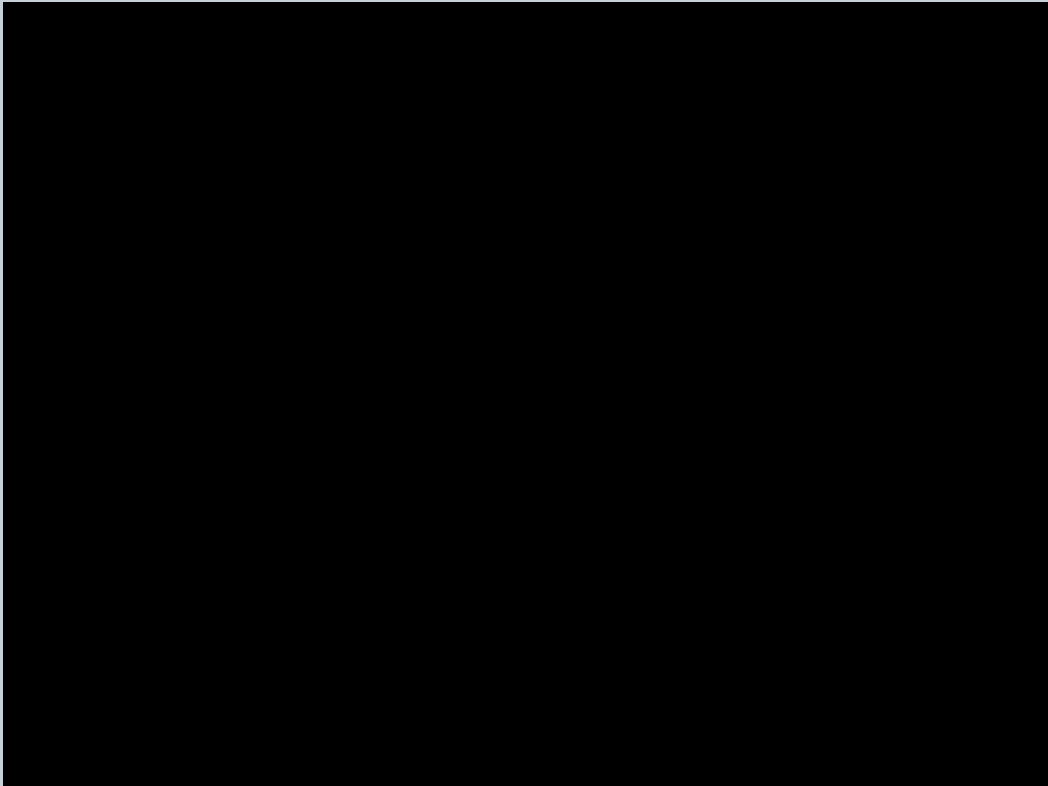
Proposition 1A  
Proposition 1B  
Proposition 1C  
Proposition 1D  
Proposition 1E  
Proposition 1F

Quick-Referenc  
State Budget O  
Voter Bill of Rig



<http://www.voterguide.sos.ca.gov/quick-reference-guide/index.htm>

# Post-May 19, 2009: Renewed Budget Crisis



**IOU**

THE BACK OF THIS DOCUMENT CONTAINS AN ARTIF

**STATE OF CAL**

THE TREASURER OF THE STATE WILL PAY OUT OF THE  
IDENTIFICATION NO.  
**1477586808** **4260**

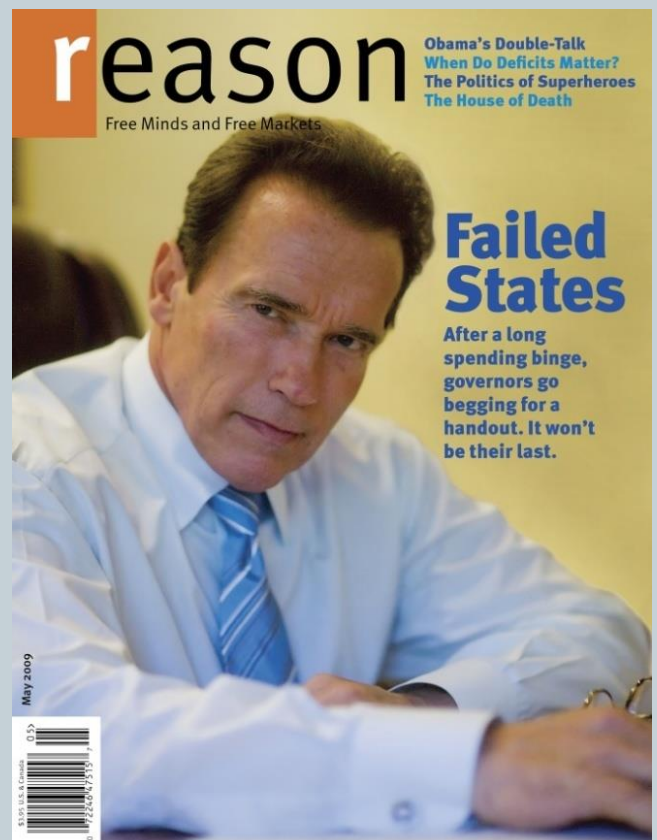
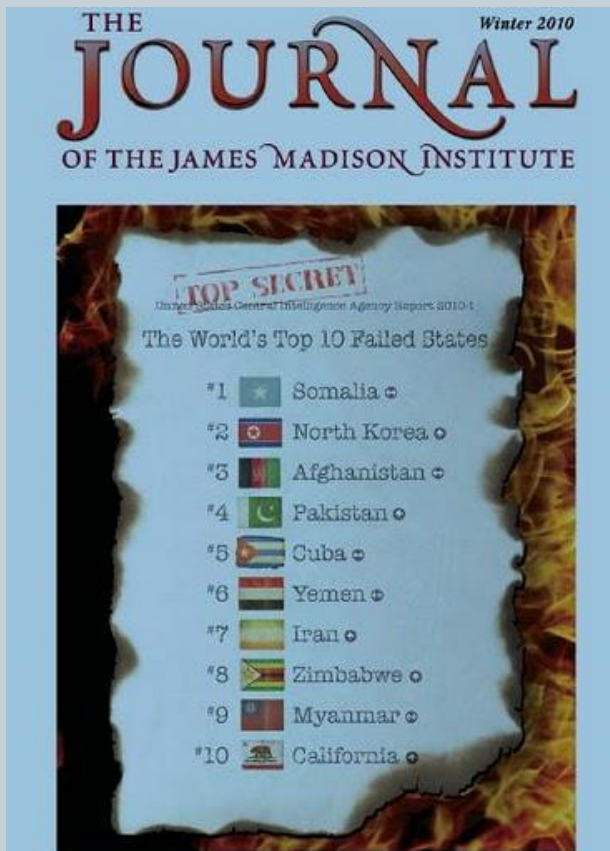
is **REGISTERED WARRANT** will be honored  
ess it's approved for earlier redemption pursuant to Gov.Code Se

**000610**





# Shades of Gray



# Shades of Gray







***Is the current budget crisis  
an unpleasant surprise?***



**Two scenarios**



**Did the budget problem  
just creep up when no one  
was looking?**



**Bird Scenario**



**Or did we really know  
what was happening?**



***Casablanca  
Scenario***





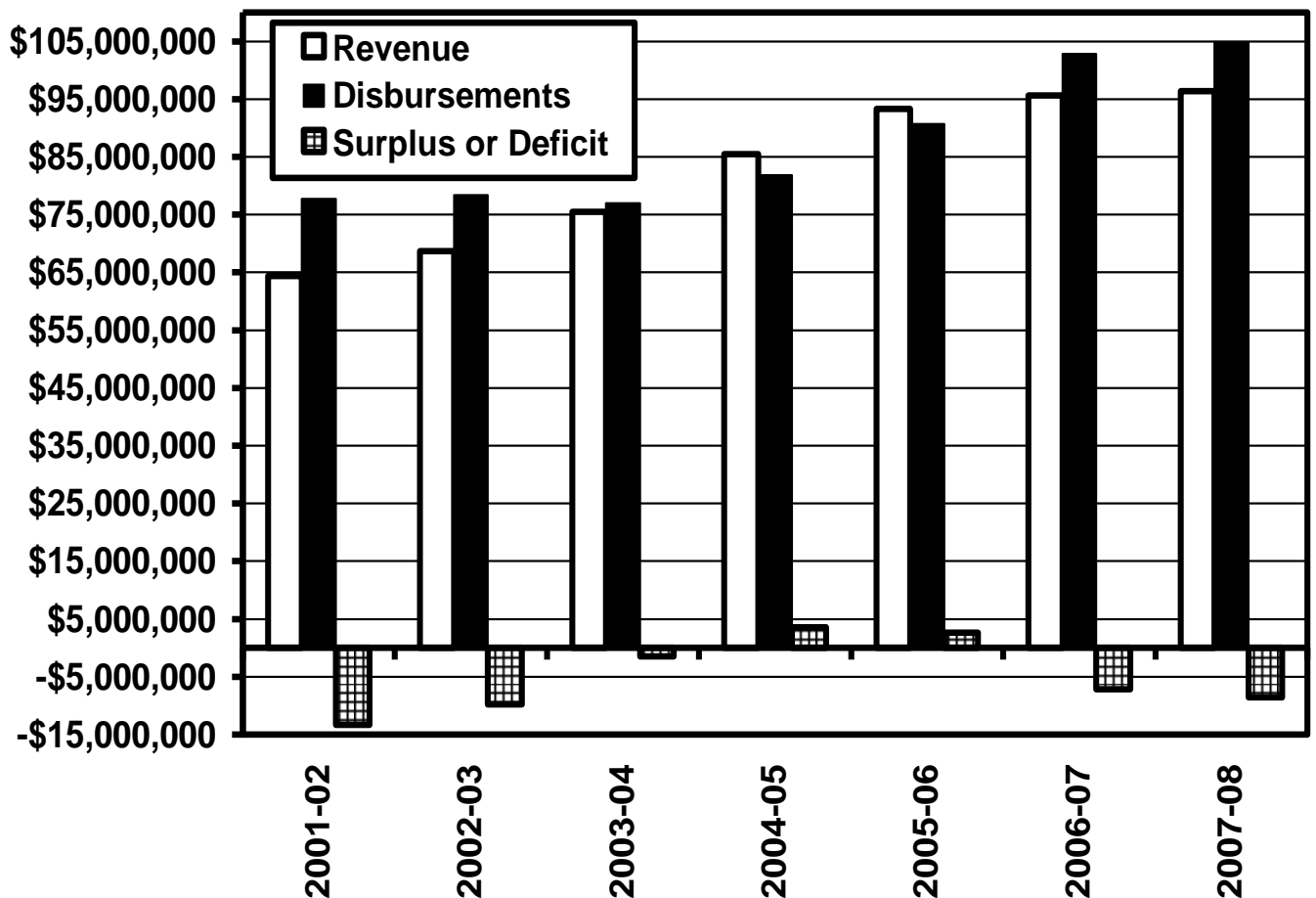
# Or did we really know what was happening?



# Looking Backwards Before the Current Crisis

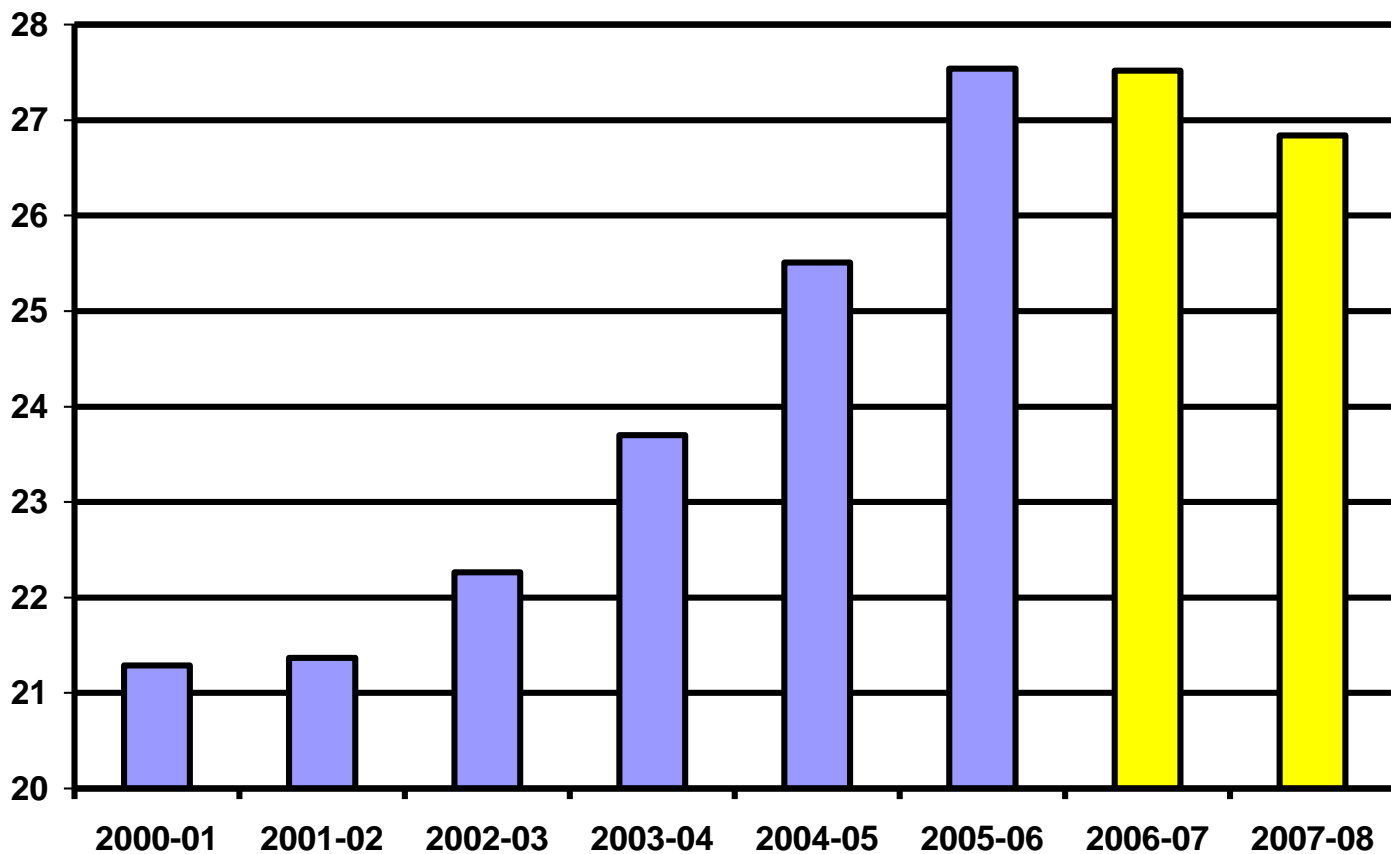


## Adjusted Cash Statement (\$000)



**Note: 2008-09, 2009-10, 2010-11 affected by 1 cent tax increase**

## California Sales Tax: \$Billions



Brant Ward / The Chronicle





March 26, 2007



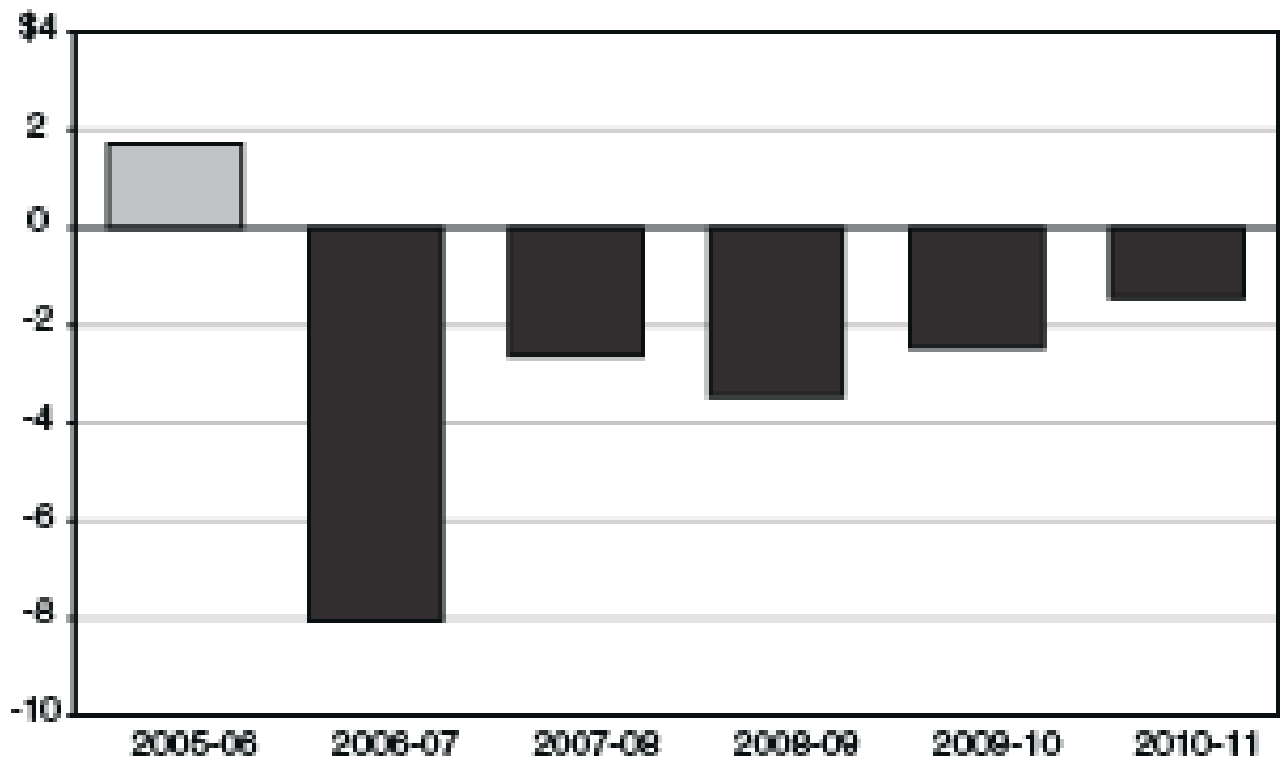
# LAO Projections as of mid-Feb. 2007



Deficits

## Significant Operating Shortfalls<sup>a</sup> Would Remain

General Fund (In Billions)



<sup>a</sup>Annual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.

**When you are at the  
peak, you can't fall up**





supposed to be  
**Repetition is a teacher**





supposed to be

Repetition is a teacher



So why does  
this happen?



# The Usual Suspects





# The Usual Suspects



**2/3 vote for budget**

**2/3 vote for taxes**

**Proposition 13**

**Voter-mandated spending formulas,  
programs, bond issues**

**Voter-imposed term limits**

**Volatile revenue stream**

**Gerrymandered districts**

**Party polarization**

**Direct Democracy**

**Direct Democracy**

# More Suspects



Surpluses and deficits don't have fixed common-English meanings

Stocks and flows are mixed

Budget concepts expressed without clear time period

Borrowing treated as revenue

Assets sales treated as negative spending

Use of undefined terms by officials such as shortfalls, gaps, and holes



**Short Fall?**

**Long Fall?**





## Short Fall?

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Paul Sakuma, Associated Press

## California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper  
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and







# CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

## Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

### Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

### Assembly Republican Leader Mike Villines, R-Clovis



# Holes







# Holes

## The Sacramento Bee CapitolAlert



### PM Alert: Another \$8 billion hole

*In case you missed it today:* The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget deficit will now be left with an **\$8 billion hole**.



**100 percent** in the California institute.



# More Suspects



**State Senate President Darrell Steinberg**

# More Suspects



**State Senate President Darrell Steinberg**

# More Suspects





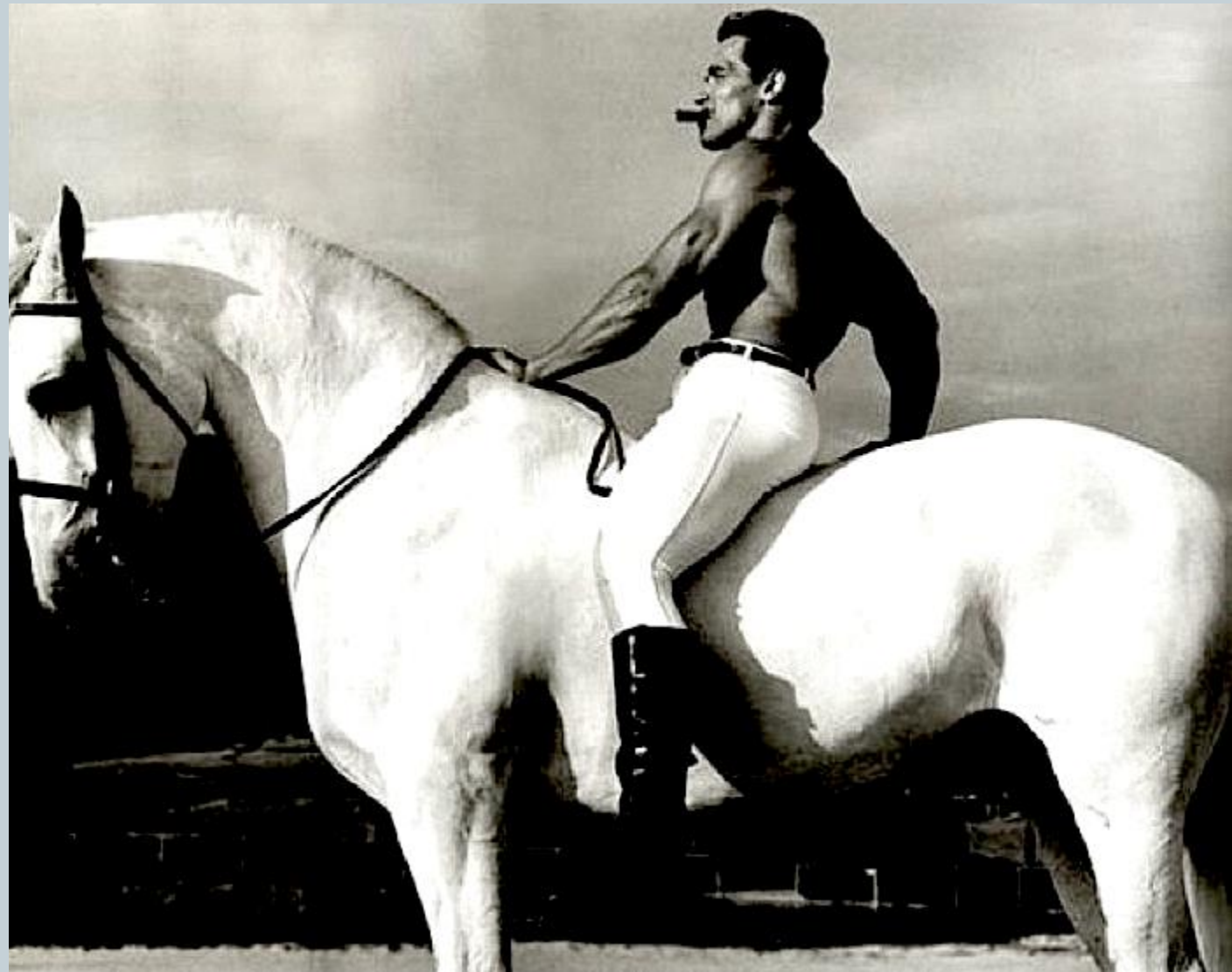
# More Suspects



**\$100 billion  
is an annual  
flow. Is it really  
likely that there  
could have  
been a \$60  
billion deficit in  
the common  
meaning of  
that term?**







**The Man on the White Horse Syndrome?**



**The Man on the White Horse Syndrome?**

# FORTUNE

ON DISPLAY UNTIL APRIL 6, 2009

## CAN MEG WHITMAN SAVE CALIFORNIA?

THE FORMER CEO  
OF EBAY GEARS UP TO  
RUN FOR GOVERNOR  
BY PATRICIA SELLERS  
PAGE 64

## INSIDE THE WORLD'S BIGGEST HEDGE FUND

BY BRIAN O'NEEFE  
PAGE 77

## MEL KARMAZIN FIGHTS TO RESCUE SIRIUS

BY JON BIRGER  
PAGE 84

Meg Whitman  
and Brandy,  
Half Moon Bay, Calif.  
March 7, 2009

FORTUNE.COM

Woman on a Non-White Horse?





**Old War Horse vs. Woman on a Non-White Horse?**



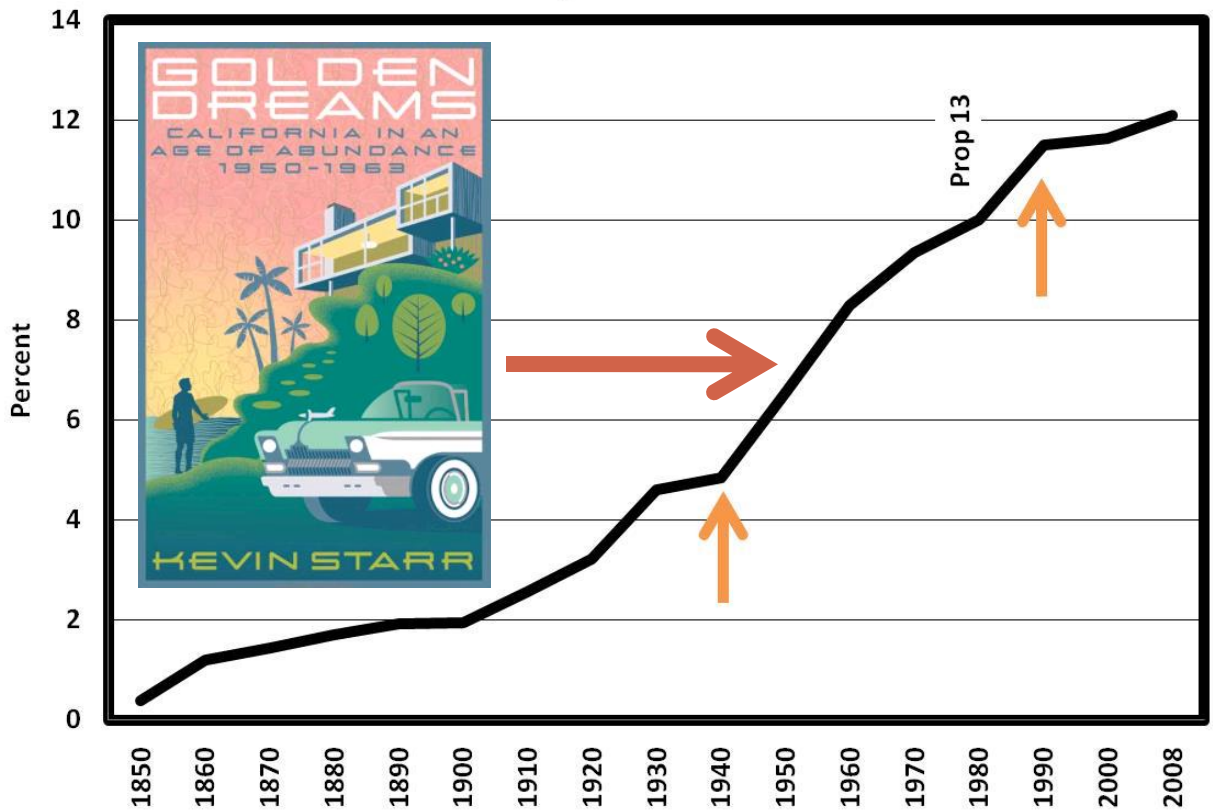
# *When was California's original sin?*



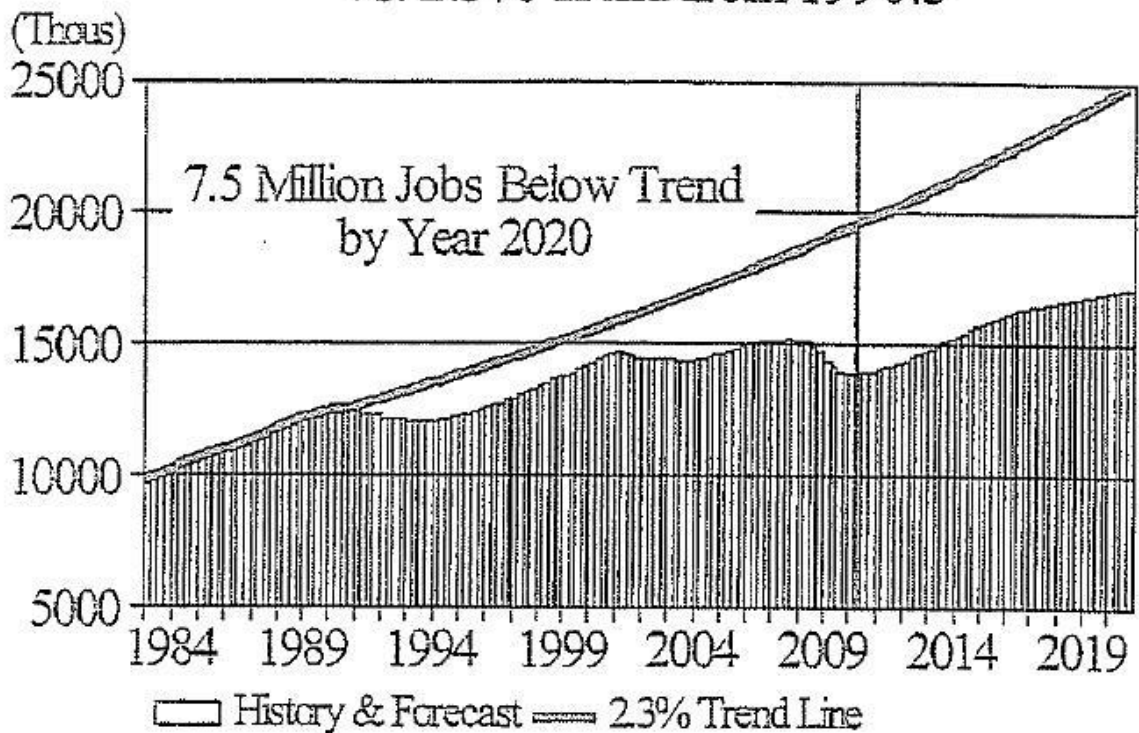
- 1978
- 1990
- 2003
- 2008



## California Population Relative to US



## California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3





**Micromanagement  
didn't help**





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96 ratings ★★★★★  
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A409

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DANIEL J.B. MITCHELL is professor-emeritus at the Anderson Graduate School of Management and the School of Public Affairs, U.C.L.A. Within the latter school, he chaired the Department of Policy Studies (now the Department of Public Policy) during 1996-97. Prof. Mitchell was formerly director of the U.C.L.A. Institute for Research on Labor and Employment (1979-90) and continues to serve on the Institute's advisory committee. During Phase II of the federal wage/price controls program of the early 1970s, Prof. Mitchell was chief economist of the Pay Board, the agency that administered wage controls. He was twice associated with the Brookings Institution in Washington, D.C., including a stint as a senior fellow in the economic studies program (1978-79), and participated in several Brookings-sponsored research projects.  
  
Professional activities have included memberships and committee responsibilities on the Executive Boards of the Labor and Employment Relations Association (both national and Southern California), the North American Economics and Finance Association, and the Institute of Industrial Relations Association. Prof. Mitchell is a past president of the North American Economics and Finance Association. He has also served on the nominating committee of the American Economic Association and on the editorial boards of various academic journals. He

**Private Address:**  
P.O. Box 492391  
Los Angeles, California 90049  
U.S.A.

**Video: Dan Mitchell**



TIME: 8 min. 14 sec.

Dispelling the Myth of the Wage-Price Spiral  
Dan Mitchell, Ho-Su Wu Chair in Management

Papers, op eds on Calif. budget & other areas:  
<http://www.anderson.ucla.edu/x2195.xml>



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Voter reg figures by party for June primary at <http://bit.ly/cN8Hib> No party (decline to state) is 1/5th of electorate <http://bit.ly/cN8Hib>  
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Field Poll: Florina in lead for US senate; GOP voters don't believe LA Times poll indicating Campbell better vs Boxer <http://bit.ly/aDoXWm>  
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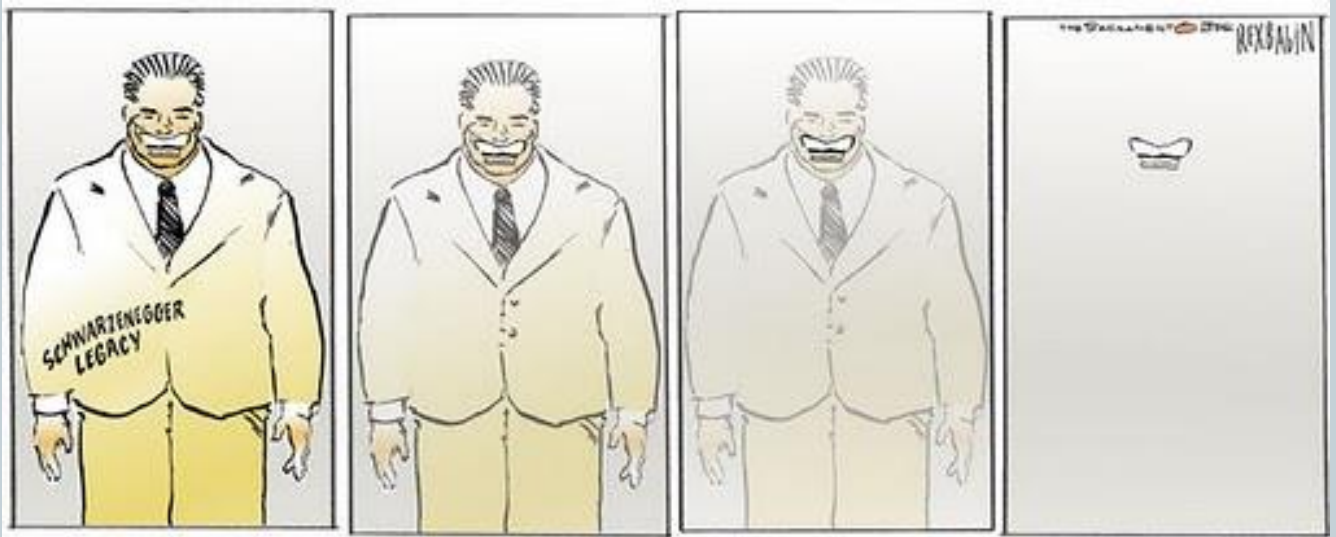
Anti-desalinization of water initiative may be on ballot in Marin County <http://bit.ly/d7KkZB>  
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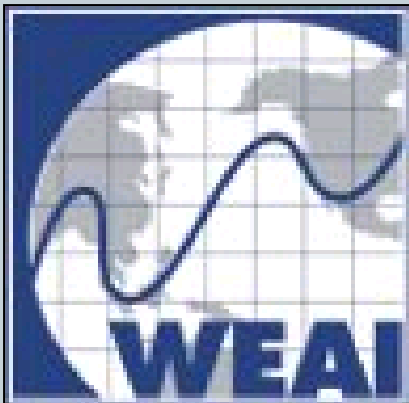
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# Who gets the last word?



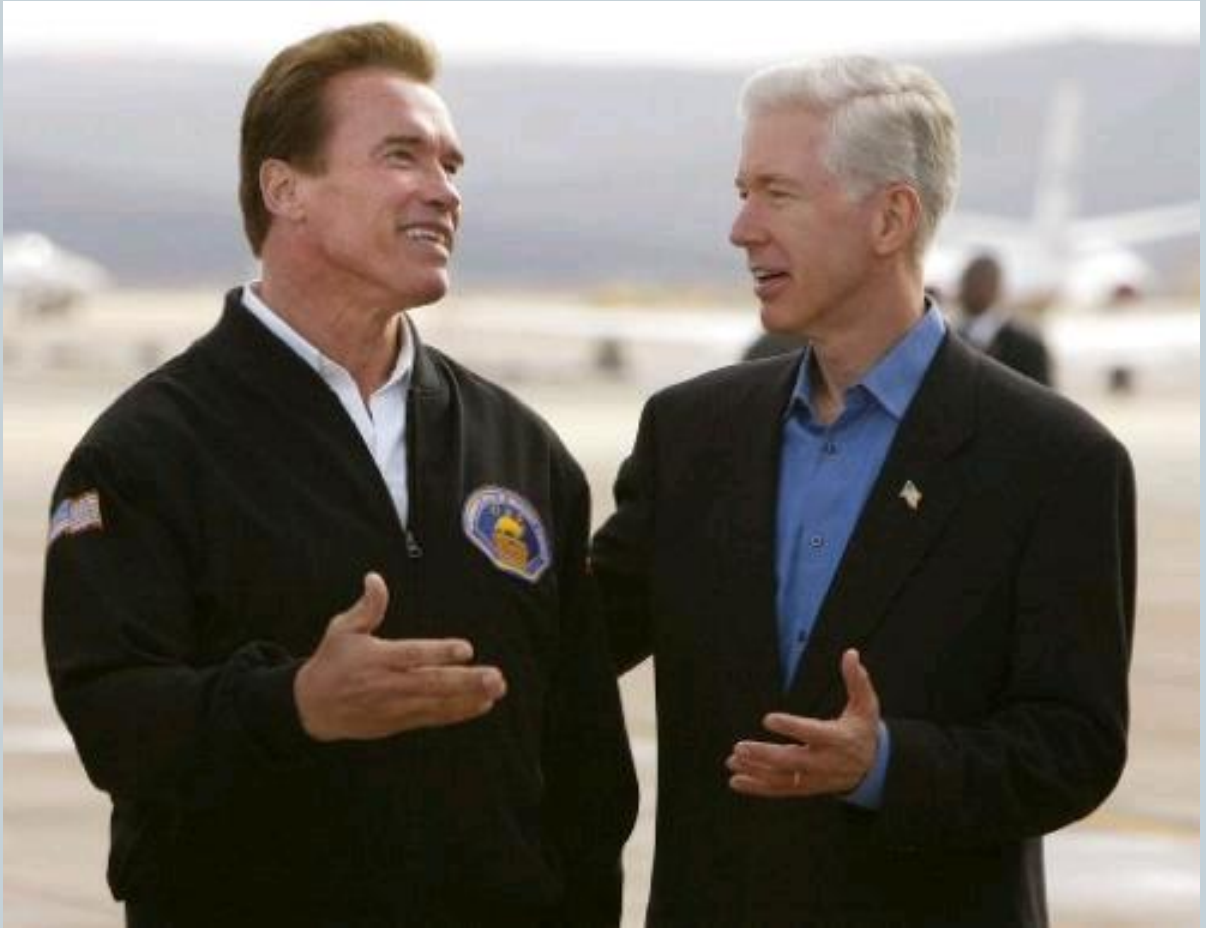
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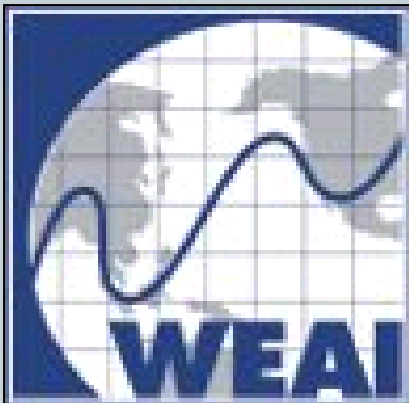


# Who gets the last word?



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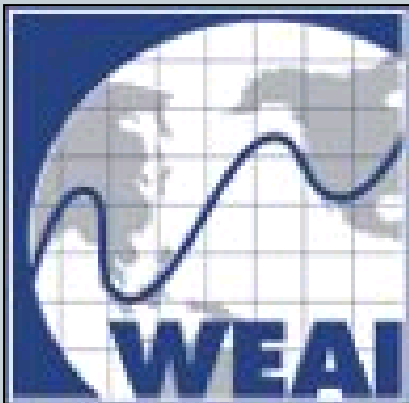


# Gray



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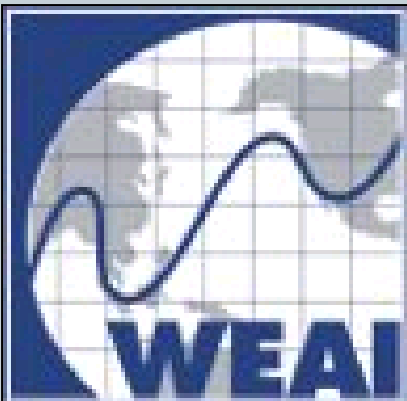


# Arnold

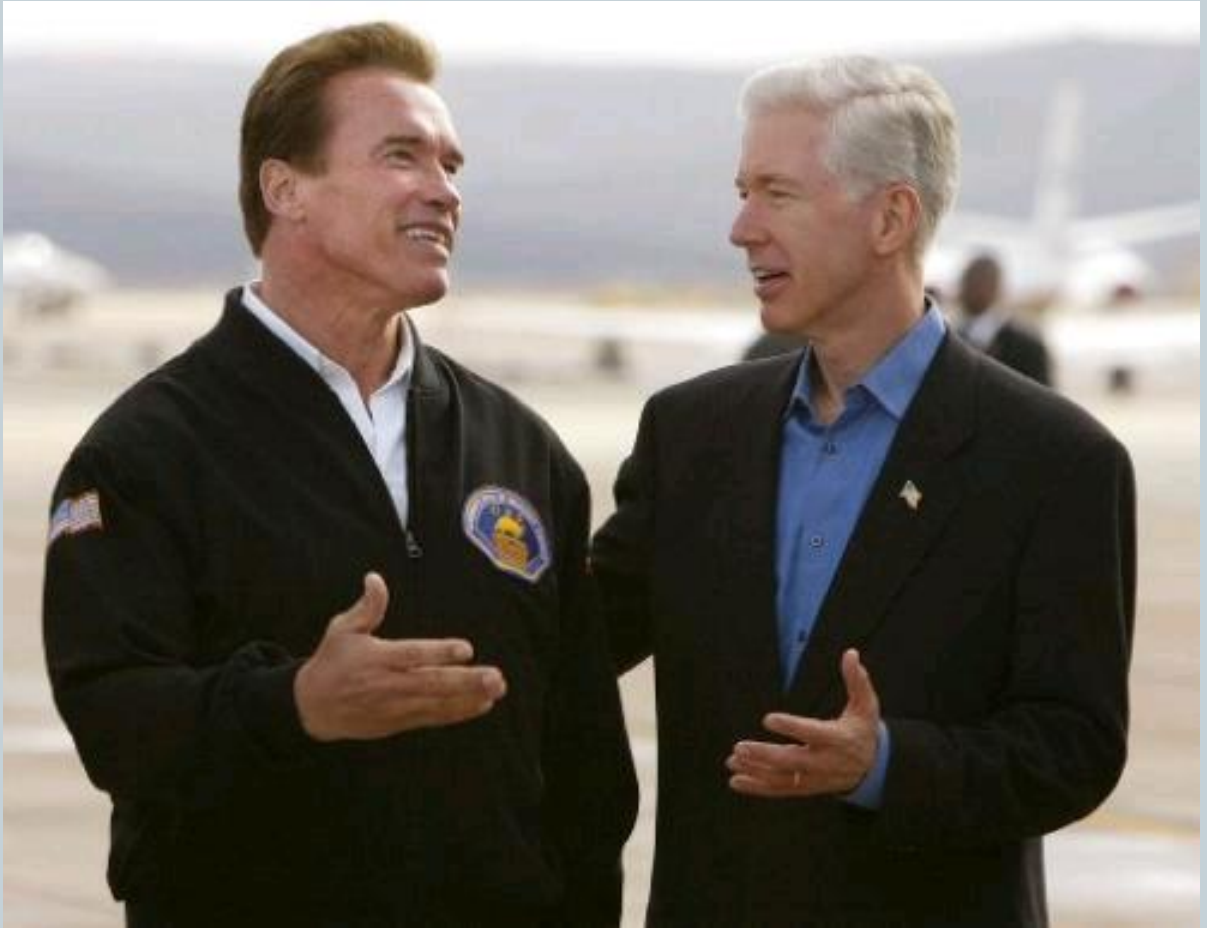


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***Portland  
July 1, 2010***



# Shades of Gray



***Daniel J.B. Mitchell***

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